Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Allocation of Costs Associated with	)	CC Docket No. 96-112
Local Exchange Carrier Provision of	)	
Video Programming Services	)	

COMMENTS OF AMERITECH

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The Ameritech Operating Companies[1] ("Ameritech" or the "Company") respectfully offer the following comments on the Notice of Proposed Rulemaking released in this docket on May 10, 1996 ("NPRM").

In the NPRM, the Commission proposes a variety of amendments to its Part 64 "cost allocation rules and procedures to accommodate an incumbent local exchange carrier's use of the same network facilities to provide video programming service and other competitive offerings not subject to Title II regulation, as well as telephony and other Title II offerings."[2]

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[1] The Ameritech Operating Companies are: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.

[2] NPRM at par. 2. 47 CFR Section 64.01 et seq. It should be noted at the outset that the NPRM in this docket attempts to revamp Part 64 rules which took nearly one year to initially establish, and nearly two additional years to finally resolve through reconsideration. Here, by contrast, the Commission set a 17/10 day cycle for comments and replies.

I.

INTRODUCTION AND SUMMARY

In keeping with the spirit of the Telecommunications Act of 1996[3] ("Act"), the Commission needs to reevaluate its historical approach to cost allocation and give a "fresh look" to whether its Part 64 rules should continue to apply at all to pure price cap carriers. The Act says that the Commission "shall" forbear from applying any of its regulations which the Commission determines are not necessary to ensure that rates are reasonable or that consumers are protected, and where such forbearance otherwise is in the public interest.[4] Given this directive, the Commission should forbear from applying Part 64 to pure price cap carriers because their rates are unaffected by the Commission's cost allocation rules

The Act specifically directs the Commission to utilize regulatory forbearance and price cap regulation as measures to encourage increased investment in telecommunications infrastructure.[5] However, carriers will have less, not more, incentive to invest in infrastructure or opt for price cap regulation if the Commission uses its cost allocation rules to intentionally re-direct costs from regulated to nonregulated (but not vice versa), and then uses

[3] Telecommunications Act of 1996, Pub. L. No. 104-104, 101 Stat. 56 (1996).
[4] Section 10.
[5] Section 706.

exogenous treatment, as if it was an "adjunct" to the productivity adjustment, to further reduce the price index for a pure price cap carrier.

Moreover, the Act repeals the Commission's video dialtone rules and regulations issued in CC Docket No. 87-266,[6] with the Congress specifically stating that those rules and regulations "shall not apply to the operation of an open video system."[7] This express mandate would be substantially undermined if the Commission uses this docket to effectively re-adopt its Responsible Accounting Officer Letter (RAO) 25, Accounting and Reporting Requirements for Video Dialtone, which was based on the rules and regulations the Commission adopted in CC Docket No. 87-266.

Therefore, the Commission should forbear from applying its cost allocation rules to pure price cap carriers. If the Commission decides otherwise, it nevertheless should streamline those rules to reflect current conditions in the price cap and post-Act environment. Failing that, the Commission should avoid adopting the more inflexible cost allocation rules proposed in the NPRM and, instead, should simply leave the current cost allocation rules in place, as is, for those rules are more than adequate to achieve their intended purpose.

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[6] Section 653.
[7] Conference Report at 179.

II.

THE COMMISSION SHOULD FORBEAR FROM APPLYING ITS COST ALLOCATION RULES TO COMPANIES WHICH OPERATE UNDER PRICE CAP REGULATION WITH NO SHARING.

The Commission's order in this proceeding must reflect the substantial changes which have occurred in the telecommunications marketplace since the Commission first adopted its cost allocation rules, in particular the enactment of the Act and the increased use of price regulation in lieu of traditional regulation based on revenue requirements. The Commission correctly notes[8] that the Act establishes an overarching goal that the Commission "provide for a pro-competitive, de-regulatory national policy framework ... ."[9] And by inviting "comment on whether there are conditions under which these cost allocation rules will not be necessary"[10] the Commission seems to recognize that its cost allocation rules may not be necessary for those companies operating under price regulation with no sharing, sometimes referred to as "pure price caps." However, most of the proposals in the NPRM represent "business as usual" at best and more onerous regulation, at worst.

Before addressing the cost allocation rules proposed in the NPRM, the Commission should have explained first why its cost allocation rules

[8] NPRM at par. 1.
[9] Joint Explanatory Statement of the Committee of Conference at p. 113 (emphasis added).
[10] NPRM at par. 63.

continue to be necessary at all for companies operating under pure price regulation. This would have been the more reasonable order of analysis given that a "de-regulatory national policy framework" is an overarching goal of the Act.[11]

The Commission's cost allocation rules are a remnant of traditional rate base/rate of return regulation. The Commission's Part 64 rules were adopted nearly a decade ago as a nonstructural accounting safeguard "to protect ratepayers from bearing the costs and risks of nonregulated activities."[12] According to the Commission, "[t]he [cost allocation] rules are intended to deter unreasonable cost shifting both from cost misallocations of joint and common costs and from affiliate transactions."[13] Under pure price cap regulation, however, prices for regulated services are unaffected by "costs and risks of nonregulated activities." Moreover, a pure price cap carrier has no incentive to engage in "unreasonable cost shifting" because regulated prices would be unaffected by "cost misallocations of joint and common costs" or a misallocation of costs "from affiliate transactions".[14]

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[11] NPRM at 1.
[12] NPRM at par. 9.
[13] NPRM at par. 9.
[14] The Commission recognized as much in a NPRM where it proposed that its affiliate transaction rules should not apply to AT&T because AT&T was operating under price cap regulation with no sharing. In the Matter of Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions Between Carriers and their Nonregulated Affiliates, CC Docket 93-251, rel. October 20, 1993 at par. 101.

Some have argued that the Commission's cost allocation rules should continue to apply to pure price cap carriers because: (a) such carriers may revert to sharing if the Commission's interim price cap order is changed or they elect a lower productivity factor in a particular year, or (b) carriers may operate under pure price cap regulation at the federal level but remain subject to traditional ratebase/rate of return regulation at the state level. Merits aside, these arguments would not even come into play if the Commission simply said that its cost allocation rules will not apply if, and only to the extent that, a carrier operates under pure price cap regulation. That requirement undoubtedly would be taken into account when a carrier elects its productivity factor and sharing requirements.

The Commission does touch on another more problematic rationale, reflected in two parts of the NPRM, for continuing to apply the cost allocation rules to pure price cap carriers. In one part of the NPRM, the Commission says:

> Our cost allocation proceeding is not intended to protect competitors in video service or other competitive markets. Consequently, our rules will intentionally allocate a significant part of common costs to non-regulated services.[15]

[15] NPRM at par. 23 (emphasis added).

Then, in another part of the NPRM, the Commission says that "[u]nder a strict reading of [its price cap rules], a presumption that cost reallocations due to changes in the Part 64 cost allocation process are exogenous would only apply to amounts reallocated 'from regulated to nonregulated activities.'"[16] Taken together, these two references might be interpreted by some as meaning that the Commission's cost allocation rules should continue to apply to pure price cap carriers because that would provide a convenient means for the Commission to drive decreases in the price cap indices by moving costs out of (but not into) regulated accounts.

This would not be reasonable. Exogenous treatment under price cap regulation[17] applies only to changes that: (1) are beyond the carrier's control, (2) not reflected in the GDPPI, and (3) are economic, i.e. affect cash flow.[18] Cost reallocations under Part 64 do not satisfy the third prong of this three-part test. Moreover, applying exogenous treatment to Part 64 cost allocations

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[16] NPRM at par. 60. Even under a strict reading, however, it is not at all clear how a rule that accords exogenous treatment for reallocation of investment from regulated to nonregulated pursuant to the application of Part 64 rules would lead to any presumption about the exogenous effects of cost reallocations which occur because of changes in the Part 64 rules. In fact, while the Commission's rules currently require an exogenous adjustment for the reallocation of shared network plant, the Commission has recognized that the amounts have been de minimus and have not required the reallocation adjustment. See Memorandum Opinion and Order, In the Matter of Annual Access Tariffs, rel. June 22, 1992, pars. 43-45.

[17] In describing the exogenous factor in price cap regulation, the Commission said that its "decision to retain this aspect of cost-plus regulation was appropriate for the beginning of the transition from rates based on regulatory accounting costs to rates that approximate the prices that would be produced in a competitive market. ... As time goes on, however, the rationale for continuing to allow exogenous cost changes to price cap rates is less compelling." In the matter of Price Cap Performance Review for Local Exchange Carriers , Docket 94-1, Report and Order, rel. April 7, 1995 at pars. 298-299. Including Part 64 cost allocations for exogenous treatment would be a reversal of the Commission's thinking on this point.

[18] *Id.* at pars. 293-294.

seemingly undermines, at least to some degree, the rationale for the productivity adjustment; if a carrier becomes more productive in how it deploys plant, the Commission will off-set that efficiency through the productivity adjustment and by reallocating cost.[19]

Rather than creating new cost allocation rules, the Commission should exercise its authority under Section 10 of the Act and forbear from applying those rules to pure price cap carriers. Under Section 10, the Commission "shall" forbear from applying any of its regulations if the Commission determines enforcement is not necessary to ensure that: rates are reasonable and not discriminatory; consumers are protected and the public interest is promoted.[20]

Forbearance from application of the Commission's cost allocation rules meets all of the Section 10 criteria. Those rules are not necessary to ensure that regulated rates are reasonable and non-discriminatory because, under pure price caps, regulated rates are unaffected by those cost allocations. Since cost allocation does not impact the regulated rates of a pure price cap carrier, the Commission's cost allocation rules are not necessary to protect customers. Finally, forbearance of this kind would be in the public interest because compliance with the Commission's Part 64 rules is expensive for both the

[19] However, if the Commission is going to provide exogenous treatment to cost reallocations under Part 64, then it must operate consistently as costs are allocated out of, or into, regulation.
[20] Section 10(a)(1), (2) and (3).

Commission and the affected carrier. In fact, Part 64 compliance costs Ameritech over $5 million annually, a substantial amount that could be better utilized if devoted to efforts which actually serve customers. Given this cost/benefit balance, continued application of the Part 64 rules to pure price cap carriers would not be in the public interest.

Attachment A contains the new rules the Commission should adopt to implement such forbearance. Specifically, for each section of the Part 64 rules -- Section 64.901, Allocation of Costs, Section 64.902, Transactions with Affiliates, Section 64-903, Cost Allocation Manuals, and Section 64.904, Independent Audits -- the Commission should forbear from regulating companies that have elected the no sharing value of the productivity offset (x-factor) in the Commission's price cap rules pursuant to Section 61.45(b)(1), Adjustments to the PCI for Local Exchange Carriers. The Commission also should forbear from applying the regulations in Section 43.21(c) and (f)(2), the ARMIS 495A Forecast of Investment Usage Report, 495B Actual Usage of Investment Report, and ARMIS 43-03 Joint Cost Report.

But if the Commission concludes that the public interest requires the continued application of the Part 64 rules to pure price cap carriers, then the Commission should apply those rules to all telecommunications carriers, and not just to incumbent local exchange carriers ("LECs") as the Commission proposes. The Commission should not continue to apply Part 64 to pure price

cap carriers simply because it has done so in the past;[21] that rationale completely ignores passage of the Act with the overarching goal that the Commission provide for a "de-regulatory national policy framework ... ." Nor can Section 254(k) of the Act be used as the basis for limiting application of the Commission's Part 64 rules to incumbent LECs as is suggested in the NPRM;[22] Section 254(k) says that noncompetitive services may not be used to subsidize services which are subject to competition, but the prohibition applies to telecommunications carriers, not simply incumbent LECs.[23] There is no reasonable basis for the Commission to apply onerous Part 64 rules to incumbent LECs and not apply those same rules to competitors of incumbent LECs.

[21] Use of this historical rationale is suggested in footnote 10 of the NPRM. There, the Commission says that even though "the 1996 Act refers to the provision of video programming services by 'common carriers' we [the Commission] are concerned with offerings of 'incumbent local exchange carriers' because only the latter are subject to our rules governing the allocation of costs between regulated and nonregulated activities." In other words, and despite the fact that the Act refers to provision of video programming services by common carriers, the Commission seems to be saying that it is concerned with potential for cost shifting only with respect to the video programming of incumbent LECs because they are the only common carriers to which the cost allocation rules apply.

[22] NPRM at par. 22.

[23] Again, the Commission seems focused on incumbent LECs simply because that is what the Commission has done in the past.

III.

IF THE COMMISSION DOES NOT FORBEAR FROM APPLYING ITS COST ALLOCATION RULES TO COMPANIES WHICH OPERATE UNDER PRICE CAP REGULATION WITH NO SHARING, THEN THOSE RULES SHOULD BE STREAMLINED OR, AT A MINIMUM, JUST LEFT ALONE.

If the Commission decides not to forbear from applying its cost allocation rules to companies which operate under pure price cap regulation, there still are several changes the Commission should make to streamline those rules to reflect the new conditions in a price cap and post-Act environment. Attachment B contains the new rules the Commission should adopt if forbearance is not implemented.

A. Modify the Shared Forecast Investment Rules

The Commission should modify the requirements of Section 64.901(b)(4) and permit carriers to apportion shared central office equipment and outside plant investment on the basis of actual use or some other basis, such as a fixed factor, as determined by a carrier's individual circumstances. Also Section 43.21(e), of the Commission's rules ARMIS 495A and 495B reports should be deleted. Actual use was rejected as an apportionment basis in the

Commission's Joint Cost proceeding in order to protect "ratepayers" from assuming investment risks for nonregulated activities.[24] This association of investment risk and ratepayer was inextricably a part of cost of service regulation and no longer is applicable under pure price caps. Similarly, the rules on the reallocations of investment from nonregulated to regulated should no longer apply.[25] Those rules do not allow the reallocation of nonregulated plant to regulated absent a waiver; this is intended to ensure the investment risk was not borne by the ratepayer. Since rates under pure price caps no longer are determined by a regulated rate base and expenses, of which investment is the basic component, there no longer is any investment risk associated with those rates.

B. Modify the Affiliate Transaction Valuation Standards

The Commission should make two changes to its affiliate transaction rules. First, the asymmetrical valuation standard for asset transfers should be modified to require that, in the absence of a tariff rate, the asset be transferred at net book value or prevailing price, irrespective of whether the transfer is into or out of the regulated accounts. Sections 32.27(b) and (c) of the current rules require that if the asset is transferred into regulation, it should be at the

[24] Joint Cost Reconsideration Order, CC Docket 86-111, rel. October 16, 1987, at paragraphs 36-39 and 53.
[25] Order on Further Reconsideration, CC Docket 86-111, rel. November 18, 1988, at paragraphs 29-31).

lower of net book or estimated fair market value, while if it is transferred out of regulation, it shall be at the higher of net book or estimated fair market. This asymmetry for asset transfers was adopted to ensure that the ratepayer receive the benefit for any appreciation in asset value, to prevent improper cost shifting, and to ensure that the regulated ratepayer did not assume costs for assets that had been providing nonregulated activities.[26] This rationale is no longer applicable under pure price cap regulation because rates are not affected by cost allocation.

Second, the Commission also should allow the flexible use of market rate or cost as an affiliate valuation standard for services. The valuation hierarchy should be the tariff rate and then either market rate or cost with the qualification of substantial for use of the market rate eliminated. These changes should be adopted because they are less costly to administer, can be consistently applied, and because the bases on which their adoption was predicated, i.e. prevention of cross subsidy and protection of ratepayers, is an anachronism for pure price cap carriers.

C. Simplify the Part 64 Administrative Process

The Commission should modify the CAM filing requirements of

[26] Joint Cost Order, CC Docket 86-111, rel. February 6, 1987, at paragraph 296; see also Reconsideration Order at paragraph 109.

Section 64.903, Cost Allocation Manuals, by eliminating the listing of incidental activities, the chart of a carrier's corporate affiliates, the 60 day approval period, and the requirements to quantify changes in the cost apportionment tables.[27] The incidental listing and quantification statements are both based on providing information necessary for a cost of service ratemaking process which is no longer applicable for pure price cap carriers. Since carriers must list affiliates engaged in affiliate transactions in their CAM, a listing of a carrier's corporate affiliates is redundant and should be eliminated.

D. Reduce the Frequency of the Independent Audit

The Commission should modify the frequency of the independent audit requirement from annually to biennially. The degree and intensity of regulation should be imposed commensurate with the risk to the consumer. Since the linkage between costs and rates is broken under pure price regulation, the risk to consumers is mitigated and, therefore, the scope of regulation should follow suit enabling both the carriers and Commission to redeploy resources benefiting consumers. A biennial audit frequency would

[27] The Telecommunications Act of 1996 at Section 402 has already eliminated the requirement for quarterly cost allocation manual changes.

provide the Commission with a sufficient compliance review of a carrier's cost allocation accounting practices.[28]

E. Modify the Requirements for Calculation of the General Allocator

The general allocator is based on quarterly data for a three-month period ending two months before the current month.[29] This exactitude was thought to be necessary because of the impact on interstate access charges under cost of service regulation. That level of exactitude no longer is necessary under pure price cap regulation. The Commission should modify this requirement to permit carriers to calculate the general allocator on the basis of total company expenses enabling the Part 64 allocation process to be processed annually rather than monthly.

The foregoing are the types of reforms the Commission should implement to streamline any cost allocation requirements which it chooses to continue to apply in the post-Act environment.

If the Commission does not forbear from applying its cost allocation rules to pure price cap carriers, or does not streamline those rules, the

[28] The Telecommunications Act of 1996 at Section 272(d) requires a joint Federal/State Audit of a carrier's accounting practices to be conducted every two years. The Commission could alternate the independent audit in the year when the joint audit would not occur thus ensuring a carrier were audited every year.

[29] See Joint Cost Reconsideration Order, CC Docket 86-111, rel. October 16, 1987 at paragraph 83.

Commission should just leave those rules alone. The Commission suggests this may not be an option when it introduces the NPRM by asserting that:

> [t]he basic problem addressed in this proceeding is how to allocate common costs between the nonregulated offerings that will be introduced by incumbent local exchange carriers and the regulated services they already offer. Our current cost allocation rules were not designed for this task.[30]

Ameritech cannot understand how the Commission could come to this conclusion given the fact that the Commission promulgated its Part 64 rules to perform that very task, to-wit: allocate a carrier's cost between regulated and non-regulated activity.[31] Indeed, the docket in which the Commission adopted those rules was entitled, in part,

> In the Matter of
>
> Separation of costs of regulated telephone service from costs of nonregulated activities ... ".[32]

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[30] NPRM at par. 2 (emphasis added).

[31] The Commission says it will address in this proceeding "for the first time" the allocation of common costs for outside plant categories. NPRM at par. 18. Yet, the Commission's current rules already include provisions for the allocation of outside plant, including an allocation based on forecasted usage. 47 CFR Section 64.901(b)(4).

[32] In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies to provide for nonregulated activities and to provide for transactions between telephone companies and their affiliates, CC Docket No. 86-111, 2 FCC Rcd 1298 (1987)("Joint Cost Order"), recon., 2 FCC Rcd 6283 (1987)("Joint Cost Recon. Order"), further recon., 3 FCC Rcd 6701 (1988).

Moreover, the Commission itself described its Joint Cost Order, "as setting forth mechanisms by which AT&T and the local exchange carriers were required to separate the costs of providing regulated telecommunications services from the costs of providing nonregulated products and services."[33] It is not at all clear why the Commission would say now that its cost allocation rules were not designed to separate the cost of regulated service from the cost of nonregulated service.

What the Commission may be saying is that new cost allocation rules are necessary to separate the costs of new video-related service that may be offered in the future. However, that conclusion is contradicted by the Commission's Order in the recent video dialtone proceedings where it said:

> We [the Commission] reject claims that we should amend Part 64 because current rules would not prevent LECs from improperly subsidizing video dialtone nonregulated services. To the contrary, we conclude that existing Part 64 rules do not require modification to prevent such an outcome.[34]

Nor did the Commission see any need to change its Part 64 rules when, instead of providing video dialtone, a telephone company provided video

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[33] Joint Cost Recon. Order at par. 1.

[34] In the Matter of Telephone Company-Cable Television Cross-Ownership Rules, Sections 63.54-63.58, CC Docket No. 87-266, Memorandum Opinion and Order on Reconsideration, rel. Nov. 7, 1994 at par. 179 ("VDT Recon. Order").

programming over a Title VI cable system.[35] Ameritech recognizes that the Commission video dialtone proceeding and its Fourth Report and Order no longer are in effect, but that fact does not reconcile the apparent contradiction between what the Commission said about the efficacy of its Part 64 rules in those proceedings and what it tentatively concludes in the NPRM in this docket about the need for new cost allocation rules.

Some of the specific instances the Commission cites in support of the need for new cost allocation rules do not support the Commission's conclusion. The Commission says that the allocation of loop plant presents a significant problem because direct assignment of costs is generally not available and usage based allocations are not cost causative because loop plant is not traffic sensitive.[36] The Commission examines a number of cost allocation options, including direct assignment,[37] indirect attribution,[38] a ceiling based on stand-alone telephone system costs,[39] and the use of a fixed factor.[40] The Commission tentatively concludes that a fixed factor such as 50% should be prescribed because usage based allocations are not available and the use of a fixed factor minimizes the risks of cross-subsidy, is uniform and is auditable.

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[35] In the Matter of Telephone Company-Cable Television Cross-Ownership Rules, Sections 63.54-63.58, CC Docket No. 87-266, rel. August 14, 1995 ("Fourth Report and Order").
[36] NPRM at 25.
[37] NPRM at 33.
[38] NPRM at 34.
[39] NPRM at 35.
[40] NPRM at 37-42.

The Commission's concerns about direct assignment and non-cost causative usage based allocation may have some merit.[41] Nevertheless, a fixed rate factor or actual use or some other demonstrable cost causative apportionment basis could be utilized under the Commission's current rules and processes or under Ameritech's proposed changes to those rules (Attachment B). And the Commission can always utilize its rules to review a carrier's apportionment when it files the necessary amendment to its cost allocation manual. Rather than mandate new cost allocation factors now in anticipation of nonregulated services which have not been offered yet, the Commission should adopt a more flexible approach and allow itself (as well as the industry) to gain some actual experience with these new nonregulated services, which undoubtedly will be provided by various carriers using a wide variety of technology, systems and organizational structures.

The Commission suggests that new cost allocation factors could be made more uniform and that, in turn, would bring more certainty to the cost allocation process and may ease the Commission's compliance efforts. Even if that were true, ease of administration is only one factor the Commission must consider in this docket. In addition, it was just 18 months ago, that the Commission concluded that additional uniformity in its cost allocation rules for video programming was not necessary.

[41] As for uniformity, however, the benefits of permitting different solutions to cost allocation based on the individual circumstances of the each carrier was recognized long ago in the Joint Cost proceedings. See CC Docket 86-111, Reconsideration Order, rel. Oct. 16, 1987, at par. 192.

> Part 64, for the most part, does not prescribe cost categories or allocation factors. Rather, each carrier selects, subject to public comment and Commission review, the cost pools and allocators it needs to identify the costs of all of its nonregulated activities. The Commission chose this approach because it believed that the mix of nonregulated activities and the organizational structure would vary widely from carrier to carrier, and that a single, prescribed manual could not adequately encompass the possible variations.[42]

These observations admittedly came in the context of the now-defunct video dialtone proceedings, but the Commission's description of Part 64 remains as valid now as it was then. There is no reason at this time to adopt a "one-size-fits-all" approach to cost allocation and certainly no reason to micromanage a carrier's cost allocation process at the cost pool level.

If the Commission decides not to forbear from applying its Part 64 rules to pure price cap carriers or to streamline them in the manner Ameritech suggests, then the Commission at least should recognize that the existing Part 64 rules are more than sufficient to satisfy the goals for cost allocation rules which are set out in the NPRM. The Commission has offered no basis to prescribe uniform cost allocations or cost pools for either investment or expenses. The current rules provide needed flexibility to reflect individual carrier circumstances and differing uses of technologies. Prescribing allocation bases and cost pools would not make monitoring compliance any

[42] VDT Recon. Order at par. 180.

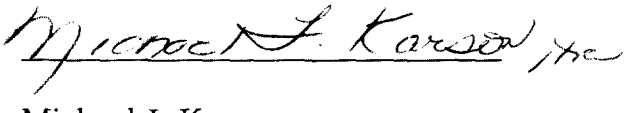
easier than the current CAM review and audit process, but simply would impose a large degree of needless rigidity.

IV.

CONCLUSION

For all of these reasons, the Commission should forbear from applying its cost allocation rules to pure price cap carriers. If the Commission decides otherwise, it should streamline those rules. Failing that, the Commission should avoid adopting the more inflexible cost allocation rules proposed in the NPRM and, instead, should simply leave the current cost allocation rules alone for those rules are more than adequate to achieve their intended purpose.

Respectfully submitted,



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May 31, 1996

Forbearance of Part 64, and Related Joint Cost Rules and Reports

Section 64.901	Allocation of costs for carriers that have not elected the no sharing value of Section 61.45(b)(1), Adjustments to the PCI for Local Exchange Carriers.
(a) ***	
(b) ***	
Section 64.902	Transactions with affiliates for carriers that have not elected the no sharing value of Section 61.45(b)(1), Adjustments to the PCI for Local Exchange Carriers
Section 64.903	Cost allocation manuals for carriers that have not elected the no sharing value of Section 61.45(b)(1), Adjustments to the PCI for Local Exchange Carriers.
(a) ***	
(b) ***	
(c) ***	
Section 64.904	Independent audits for carriers that have not elected the no sharing value of Section 61.45(b)(1), Adjustments to the PCI for Local Exchange Carriers.
(a) ***	
(b) ***	

*** indicates no change to text.

Section 43.21 Annual Reports of Carriers and Certain Affiliates.

(a) ***

(b) ***

(c) ***

(d) ***

(e) Deleted

(f) (2) Deleted

Section 32.27 Transactions with affiliates for carriers that have not elected the no sharing value of Section 61.45(b)(1), Adjustments to the PCI for Local Exchange Carriers.

(a) ***

(b) ***

(c) ***

(d) ***

(e) ***

(f) ***